

REALIGNMENT

SUMMARY OF BUDGET UNITS

	2004-05					
	Estimated Beginning Fund Balance	Budgeted Revenue	Budgeted Departmental Usage	Budgeted 10% Transfers	Estimated Ending Fund Balance	Estimated Change in Fund Balance
Mental Health	21,300,446	55,626,137	51,945,558	(5,300,000)	19,681,025	(1,619,421)
Social Services	12,594,958	70,931,212	83,891,709	5,300,000	4,934,461	(7,660,497)
Health	31,256,472	56,672,205	55,118,262	-	32,810,415	1,553,943
Total	65,151,876	183,229,554	190,955,529	-	57,425,901	(7,725,975)

DESCRIPTION

At the end of the 2001-02 year the Realignment funds were converted from trust funds to a restricted general funds requiring them to be budgeted. This is the second year the Realignment budgets have been presented in the County's budget book. The format for this section varies from other budget units to help with presentation of information. The Realignment budgets do not directly spend funds or provide service. They are strictly financing budgets with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

In 1991 the state shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and a change in the depreciation schedule for vehicles which resulted in a 24.33% increase in Vehicle License Fee (VLF) revenues. Each of the three service areas identified were required to have their own separate accounts established and each of those service areas receive a different share of statewide Realignment revenues.

Within the mental health area, the programs for which the county is now responsible for are: community-based mental health programs, State Hospital services for county patients, and Institutions for Mental Disease. Within the social services area, the programs for which the county is now responsible for are: the county revenue stabilization program and the county justice subvention program. Within the health area, the programs for which the county is now responsible for are: AB8 county health services, local health services, medically indigent services, and the county medical services program.

In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. Social services had a number of programs involved in sharing ratio changes (numbers are shown in percentages in the order of state/county shares of cost): foster care from 95/5 to 40/60, child welfare services from 76/24 to 70/30, In Home Supportive Services (IHSS) from 97/3 to 65/35, county services block grant from 84/16 to 70/30, adoption assistance from 100/0 to 75/25, Greater Avenues for Independence from 100/0 to 70/30, CalWorks from 89/11 to 95/5, and administration from 50/50 to 70/30. Within health, the California Children's Services program cost share shifted from 75% state/25% county to 50/50.

The Realignment program has some flaws in its design that adversely impact County of San Bernardino revenues. First is San Bernardino's status as an "under equity county," meaning that the county receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under equity in those programs. Realignment did attempt to address the inequity issue, but the effort fell short. The county continues to be under equity at this time and barring any legislative action the amount of inequity will increase over time. As growth occurs in the revenue streams, that incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over equity get a higher percentage of the new revenue while those that are under equity get less.



In addition to the under equity issue is the fact that the demand for the services we are providing and the revenue streams funding them are both sensitive to the economy. When the economy is doing well, demand for services is reduced and revenues are high. When the economy does poorly, demand for services is high, but revenues under perform. During the recent good years, the realignment funds recovered from earlier difficulties and built up a substantial available fund balance. Beginning in the 2002-03 year, those fund balances began to be depleted as revenues shrank, demand for services increased, and expenses increased. The 2004-05 year end fund balance is projected to be only slightly more than one-half of the fund balance at the peak hit in 2001-02.

The state anticipated that some of the problems with Realignment could result in litigation or unfunded mandate claims. As a result, the legislation contained three poison pill provisions that would make certain provisions of Realignment inoperative. The three poison pills that could nullify Realignment, or portions of it, are: (1) a county successfully filing an unfunded mandate claim with respect to realigned programs, (2) constitutional challenges regarding Realignment's treatment of VLF revenues (which are constitutionally protected as local government revenue) or a finding that exclusion of Realignment revenue from Proposition 98 education funding calculations is unconstitutional, and (3) an appellate court determination that 1982 legislation shifting responsibility for medically indigent adults to counties is reimbursable as an unfunded mandate.

Recently, San Diego County was successful in its legal attempt to seek additional funds from the State for medically indigent adults. The lower court ruling was upheld at the appellate court and the State Supreme Court declined to hear the case, which made the appellate court's decision in favor of San Diego final. That action triggered the third poison pill and resulted in the immediate cessation of Realignment VLF payments to counties. The State legislature passed legislation to temporarily revoke the poison pill and make the counties whole for lost funds; however, this is a temporary fix that only resolves the problem until July 15, 2004. Further resolution of the problem is being rolled into the State's 2004-05 budget process. Delays in the State adopting a budget result in the County of San Bernardino not receiving approximately \$5 million monthly. For purposes of this budget, it is assumed that the State legislature will work out a permanent fix during the budget process and that the County will be made whole for revenues not received between July 16, 2004 and implementation of the permanent fix in conjunction with final adoption of the State budget.

Aside from the Poison Pill problem, the temporary fix legislation addressed the problem of funds the counties lost at the end of the 2002-03 year and the beginning of the 2003-04 year as a result of delays in implementation of the increases and decreases in VLF that occurred during Governor Davis' tenure, referred to as the "gap." Originally legislation was passed that would temporarily shift 2003-04 general VLF revenues to Realignment VLF to fill the gap. It has been estimated by the Department of Finance that the shift as adopted will be insufficient to fill the gap. This shortfall has now been resolved because the Poison Pill temporary fix bill gives the Department of Finance authority to adjust the amount of VLF revenues shifted to exactly backfill Realignment for any lost gap revenues.

With the Poison Pill problem only temporarily resolved, there are potential problems regarding availability of cash in the Realignment funds should the State have a long delay in adoption of a permanent fix. These concerns have been brought to the attention of the Auditor-Controller's office for their consideration as they estimate coming year cash flows and prepare to size the County's TRANs issuance.

The Realignment legislation does allow for some flexibility in usage of funds at the county level. Upon action by the Board of Supervisors, a county can transfer 10% of a given years revenue from one fund to another. San Bernardino County has used the provision repeatedly over the years to help support either the health or social services programs. In the chart above there is a budgeted transfer for the 2004-05 year noted in the "Budgeted 10% Transfers" column. Any such transfer would have to come before the Board of Supervisors for approval before taking place.

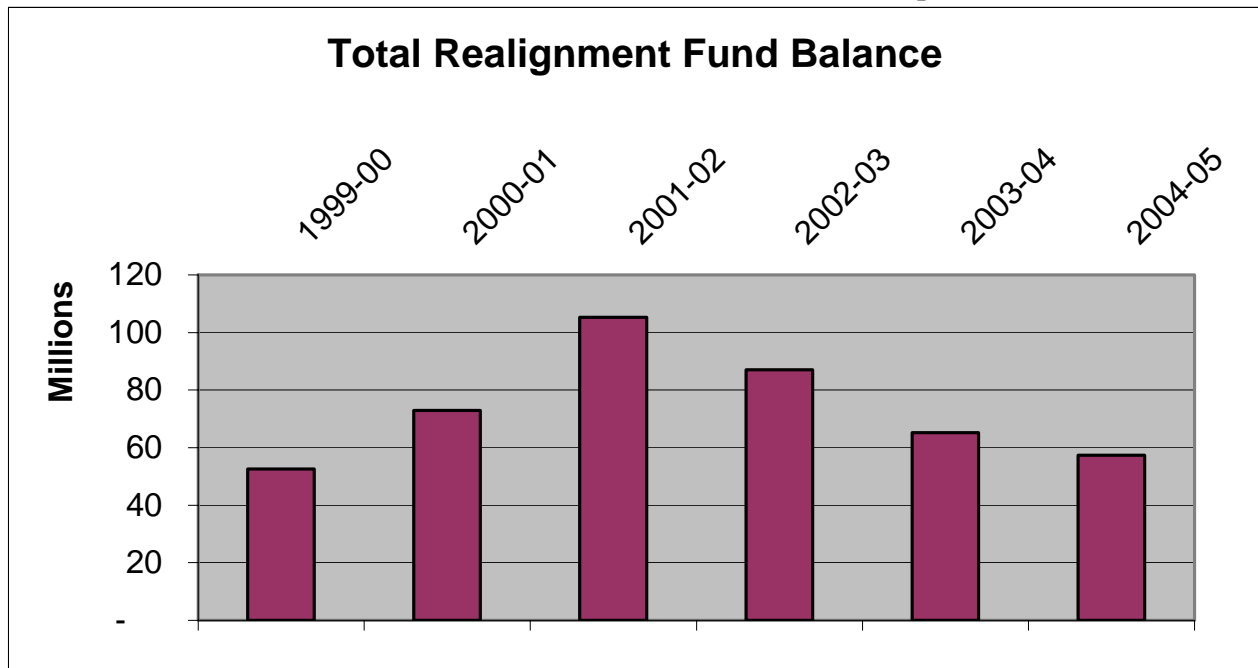
Budgetary Note: Financial information presented in this Realignment budget section is consistent with state reporting requirements for the Realignment funds. The state's reporting requirements are not consistent with the county's implementation of GASB 34 as it relates to revenue accrual. As such, within the county's accounting system, an adjustment will be made to show the correct revenues in accordance with the county's accrual procedures. This is a revenue timing issue only as a result of delays by the state in distributing growth revenue.



BUDGET HISTORY AND FUND BALANCE TREND**Total - All Realignment Funds**

	ACTUAL 2002-03	BUDGET 2003-04	ESTIMATE 2003-04	PROPOSED 2004-05
Beginning Fund Balance	105,261,868	76,611,548	87,055,266	65,151,876
Revenue	169,821,569	170,635,192	177,419,456	183,229,554
Department Usage	188,028,171	200,613,769	199,322,846	190,955,529
Ending Fund Balance	87,055,266	46,632,971	65,151,876	57,425,901
Change in Fund Balance	(18,206,602)	(29,978,577)	(21,903,390)	(7,725,975)

Available Fund Balance, as seen in the graph below, in the Realignment funds peaked at the end of the 2001-02 year as the county benefited from a large growth distribution attributable to the 2000-01 increase in sales taxes and vehicle license fees. Departmental Usage is anticipated to decline year-over-year as expense cutting measures in Behavioral Health become fully implemented and one-time expenses in the Health fund go away. Social Services, which funds caseload driven mandated programs is projected to effectively run out of fund balance at the end of the 2004-05 year, which could require additional general fund support going forward.



Of note in this graph is that the fund balance ending 2004-05 at the far right is 60% Health fund balance; the other two funds are continue to draw down fund balance for ongoing expenditures. Social Services in particular is projected to have only a \$4.9 million fund balance ending 2004-05. Given revenue and expenditure trends in Social Services, it is highly unlikely that the \$4.9 million in available fund balance will be sufficient to fund these mandated programs, thus requiring additional general fund support in 2005-06.

Revenues for 2004-05 are expected to increase year-over-year, primarily as a result of sales tax growth. It is important to note that for the foreseeable future all sales tax growth will accrue to the Social Services fund to pay for mandated caseload increases for which funding was unavailable in prior years. This will adversely affect the Mental Health and Health funds since they will see no increase in sales tax revenue until sales tax growth is sufficient to fund the additional caseload costs in Social Services.

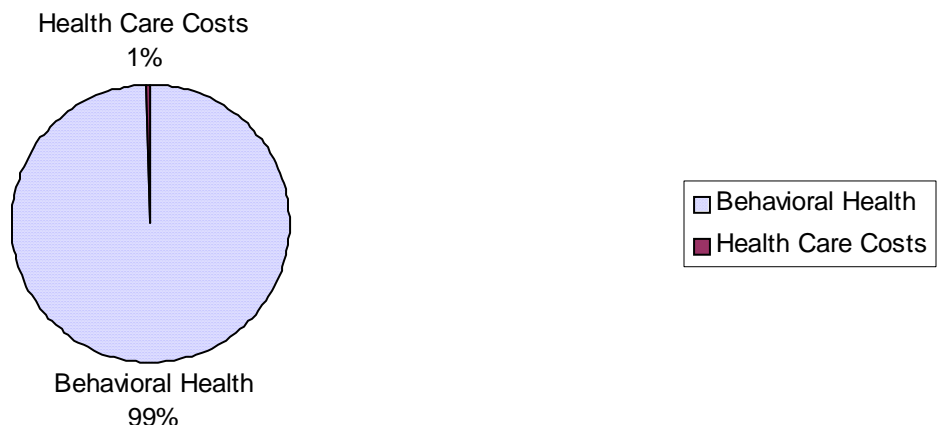


BREAKDOWN BY INDIVIDUAL REALIGNMENT FUNDS**MENTAL HEALTH**

	Mental Health			
	ACTUAL 2002-03	BUDGET 2003-04	ESTIMATE 2003-04	PROPOSED 2004-05
Beginning Fund Balance	48,310,313	25,433,662	32,159,845	21,300,446
Revenue	55,374,281	55,201,458	55,031,140	55,626,137
Department Usage	66,424,749	67,192,114	60,690,539	51,945,558
10% Transfers	(5,100,000)	(5,337,670)	(5,200,000)	(5,300,000)
Ending Fund Balance	32,159,845	8,105,336	21,300,446	19,681,025
Change in Fund Balance	(16,150,468)	(17,328,326)	(10,859,399)	(1,619,421)

Mental Health fund revenue is composed approximately 2/3 sales tax and 1/3 VLF. Revenues are expected to climb slowly since any growth in sales tax will be dedicated to Social Services to fund caseload. In conjunction with the County Administrative Office, the Behavioral Health Department has developed a plan to significantly reduce expenditures in an effort to bring expenditures in line with revenues. As seen in the table above, this plan has been successful in reducing fund balance used from \$16,150,468 in 2002-03 to an estimated \$10,859,399 in 2003-04 and a budgeted \$1,619,421 in 2004-05. Implementation of this plan has significantly improved the financial position of the Mental Health fund.

	Breakdown of Departmental Usage of Mental Health Realignment			
	ACTUAL 2002-03	BUDGET 2003-04	ESTIMATE 2003-04	PROPOSED 2004-05
Behavioral Health	66,131,442	66,873,463	60,414,469	51,622,300
Health Care Costs	293,307	318,651	276,070	323,258
Total Department Usage	66,424,749	67,192,114	60,690,539	51,945,558



SOCIAL SERVICES**Social Services**

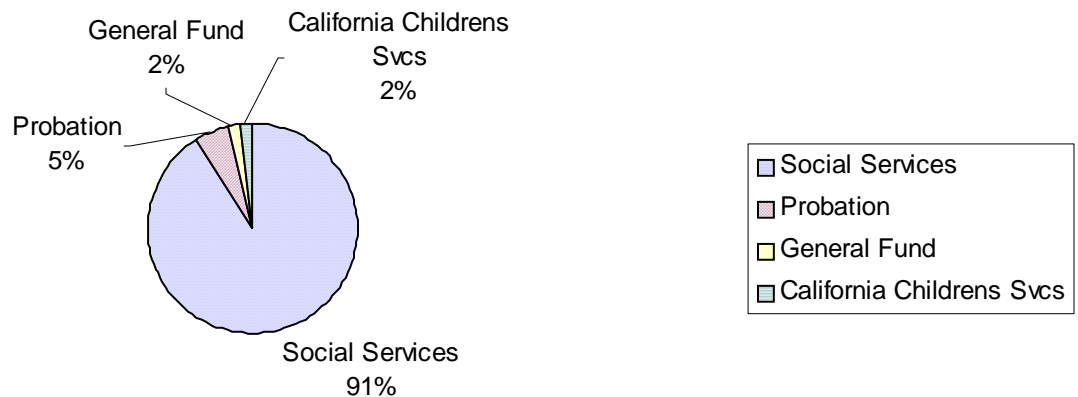
	ACTUAL 2002-03	BUDGET 2003-04	ESTIMATE 2003-04	PROPOSED 2004-05
Beginning Fund Balance	27,347,751	16,447,227	18,249,575	12,594,958
Revenue	59,319,027	59,742,774	65,716,111	70,931,212
Department Usage	73,517,203	78,653,534	76,570,728	83,891,709
10% Transfers	5,100,000	5,337,670	5,200,000	5,300,000
Ending Fund Balance	18,249,575	2,874,137	12,594,958	4,934,461
Change in Fund Balance	(9,098,176)	(13,573,090)	(5,654,617)	(7,660,497)

Revenues for Social Services are primarily (96%) sales tax with minimal VLF. The social services revenues have been particularly hard hit by the poor performance of statewide sales tax collection. Actual sales tax collection has been insufficient to keep up with rising costs in the mandated programs. Continued caseload cost increases as well as operational cost increases for liability insurance and increased salary and benefit costs will likely result in growing demand for additional financing for these programs.

In last year's projection it was anticipated that Social Services would require additional general fund support in the 2004-05 year; however, due to a higher than estimated beginning fund balance, less than budgeted expenditure estimates, and more optimistic revenue projections from the County's economics consultant, it appears that Social Services need for additional support will be pushed back to 2005-06. The \$4,934,461 ending estimated fund balance could swing dramatically with changes in caseload and sales tax growth.

Breakdown of Departmental Usage of Social Services Realignment

	ACTUAL 2002-03	BUDGET 2003-04	ESTIMATE 2003-04	PROPOSED 2004-05
Social Services Programs*	65,795,951	71,015,863	68,933,057	76,754,038
California Childrens Services	1,438,041	1,538,041	1,538,041	1,538,041
Probation	4,484,211	4,300,630	4,300,630	3,800,630
County General Fund	1,799,000	1,799,000	1,799,000	1,799,000
Total Department Usage	73,517,203	78,653,534	76,570,728	83,891,709



HEALTH**Health**

	ACTUAL 2002-03	BUDGET 2003-04	ESTIMATE 2003-04	PROPOSED 2004-05
Beginning Fund Balance	29,603,804	34,730,659	36,645,846	31,256,472
Revenue	55,128,261	55,690,960	56,672,205	56,672,205
Department Usage	48,086,219	54,768,121	62,061,579	55,118,262
10% Transfers	-	-	-	-
Ending Fund Balance	36,645,846	35,653,498	31,256,472	32,810,415
Change in Fund Balance	7,042,042	922,839	(5,389,374)	1,553,943

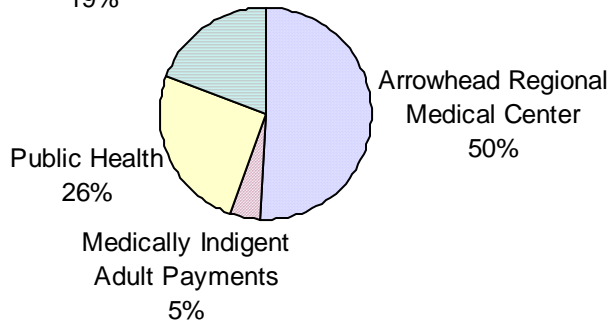
Health Realignment is funded approximately 1/3 sales tax and 2/3 VLF. Within Health, departmental expenses have been brought into line with ongoing revenues by not providing realignment increases to pay for rising salary and benefit costs. As a result, the departments have effectively experienced a budget cut due to inflation and the rising costs associated with salaries and benefits. The slight increase in 2003-04 for Public Health reflects a backfill of lost SB 90 revenue from the state and is for cash flow purposes until the State provides reimbursement.

Other programs funded by Health realignment are Medically Indigent Adult (MIA) Payments and Health Care Costs. The MIA budget funds payments to non-county hospitals for treatment of MIA patients. The Health Care Costs budget unit helps pay for the ARMC lease. A retroactive adjustment resulted in reduced SB 1732 revenue to fund lease payments in 2003-04 causing a one-time increase of Realignment usage in the Health Care Costs budget of approximately \$7 million.

Breakdown of Departmental Usage of Health Realignment

	ACTUAL 2002-03	BUDGET 2003-04	ESTIMATE 2003-04	PROPOSED 2004-05
Arrowhead Regional Medical Cntr	28,232,816	28,000,000	28,000,000	28,000,000
Medically Indigent Adult Payments	1,252,689	2,550,000	2,550,000	2,550,000
Public Health	13,693,643	13,908,689	14,158,689	14,078,852
Health Care Costs	4,907,071	10,309,432	17,352,890	10,489,410
Total Department Usage	48,086,219	54,768,121	62,061,579	55,118,262

Health Care Costs
19%



- ☐ Arrowhead Regional Medical Center
- ☐ Medically Indigent Adult Payments
- ☐ Public Health
- ☐ Health Care Costs

